RICHARD RUSSELL'S **DOW THEORY LETTERS, INC.**

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April 6, 1983 **LETTER 858**

Mar. 25, DJIA 1140.09; PTI 1553; A-D ratio –15.49
Mar. 31, DJIA 1130.06; PTI 1545; A-D ratio –15.61

NO DISASTERS: There may still be skepticism in certain quarters, but let's face it, this thing on Wall Street is a primary bull market. On March 25 the D-J Industrial Average, the D-J Transportation Average and the D-J 65 Stock Average all advanced to new RECORD highs. On the same day my Primary Trend Index (which has been so RESISTANT on the downside) rose to a record high of 1553. The persistence, the tenacity, the relentlessness of the rise has been extraordinary.

There have been dips, there have been declines, but there has been no full correction of the rise that began last August. Six months without a full correction–isn't that a long time? Not necessarily. For instance, following a vicious secondary reaction in 1957, the market turned up in October (Dow 419). The market worked itself higher all through 1958, and it continued higher (with sundry minor declines) until August, 1959 (Dow 520). From there the first full correction began.

The hardest thing in this business is predicting or even identifying the beginning of a major reaction in a bull market. That is one reason why I stated in the last Letter that this is *an old fashioned "buy and hold" market.* In powerful bull markets (which this one is) the best policy is not trying to sell the beginning of corrections, but buying the end of corrections. In other words, it's almost impossible to practice successful "in and out" trading in a bull market. But it is easy to add more stocks during the dips, declines and corrections.

Markets do not function in a vacuum. Markets tend to adjust themselves to coming events. If that is true, what events can we expect following this 370 point rally in the Dow? It occurs to me that there are a lot of events that we can now NOT EXPECT. At the 776 Dow lows of last August, we were expecting a possible collapse of the banking system. We were also expecting a handful of huge defaults on the part of some of the less-developed nations. We were expecting a possible business collapse based on very low corporate liquidity. And we were prepared for interest rates to make another run for the sky. Finally, we were readying ourselves for total cave-in in the oil price structure.

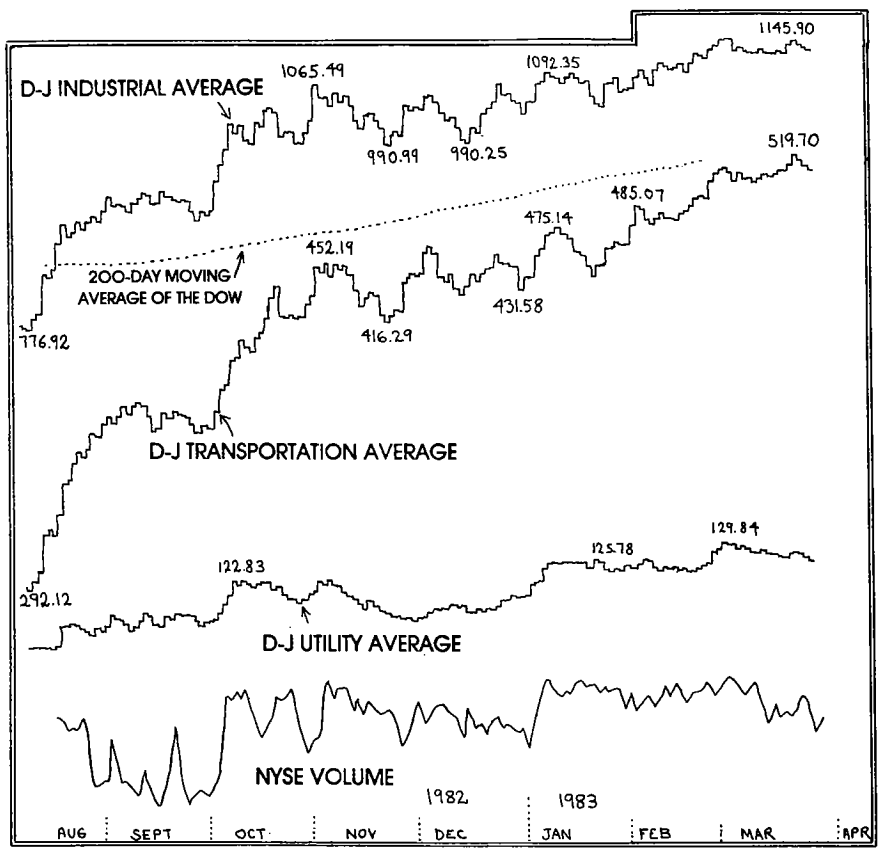
So what happened? Wall Street spoke. The Dow, the S & P 500, the NYSE Composite Index, the Amex Average, they all rose to record bull market highs. In doing so, I feel that the stock market was making a statement. What was that statement? I think the statement goes as follows: "The market doesn't see any catastrophes ahead. The market sees a building of liquidity, a turn-up in corporate profits, and a rise in consumer confidence. The market also envisions the Fed switching stances and mounting a huge liquidity-rescue mission." So far, let's face it, the market has been right in pooh-poohing disaster.

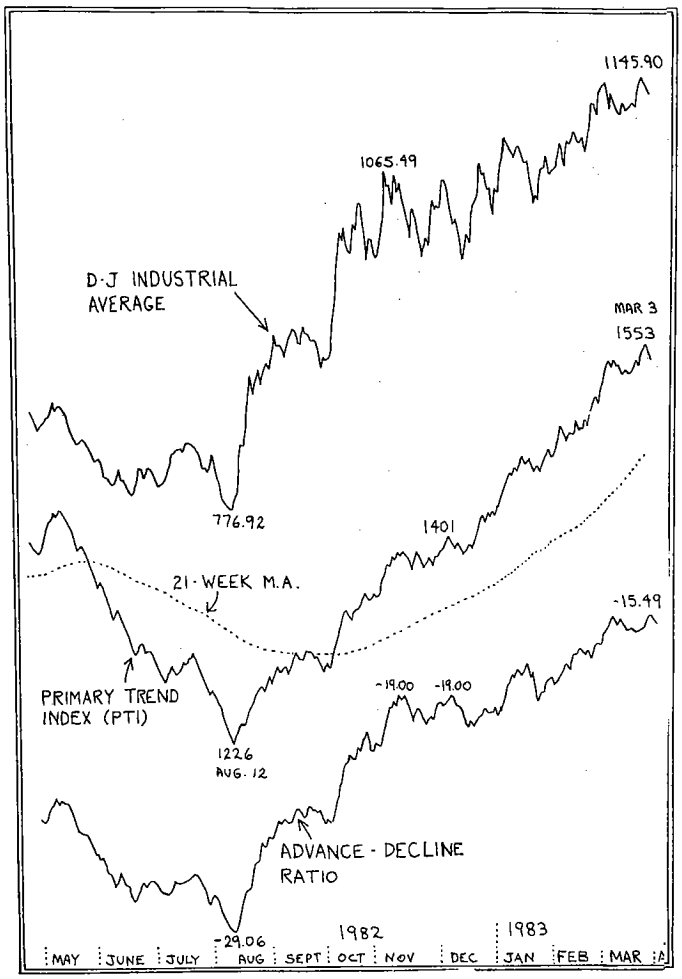
But forgetting the potential troubles, how *good* are things likely to get? My feeling is that things will get considerably better. But I'm not convinced (as so many are) that we're in for the super-boom that so many analysts predict. It could happen, we could get a great three-stage bull market–but frankly, I wonder.

I wonder on a fundamental basis, because as I see it the great debt problem has not been addressed (much less solved). Worse still, the debt problem is increasing because the debts continue to build. Thus, the great confrontation of the decade, inflation vs. deflation, continues to build.

On a technical basis I have an open mind. Ultimately, we are going to get that long-awaited "full market correction" and after the correction comes the proof. If, after that correction, the Averages rally back above the highs, that will be a most impressive feat. Such action will tell us that the stock market sees clear weather for many months (even years) ahead.

Remember, this strange and exotic market has never provided us with the classic Dow Theory bull signal. Sooner or later, however, the market (following a full correction) will be in a position to "fish or cut bait." That will be a fascinating time. It will be a time when I personally will get a much better perspective on just how big this bull market is fated to be.



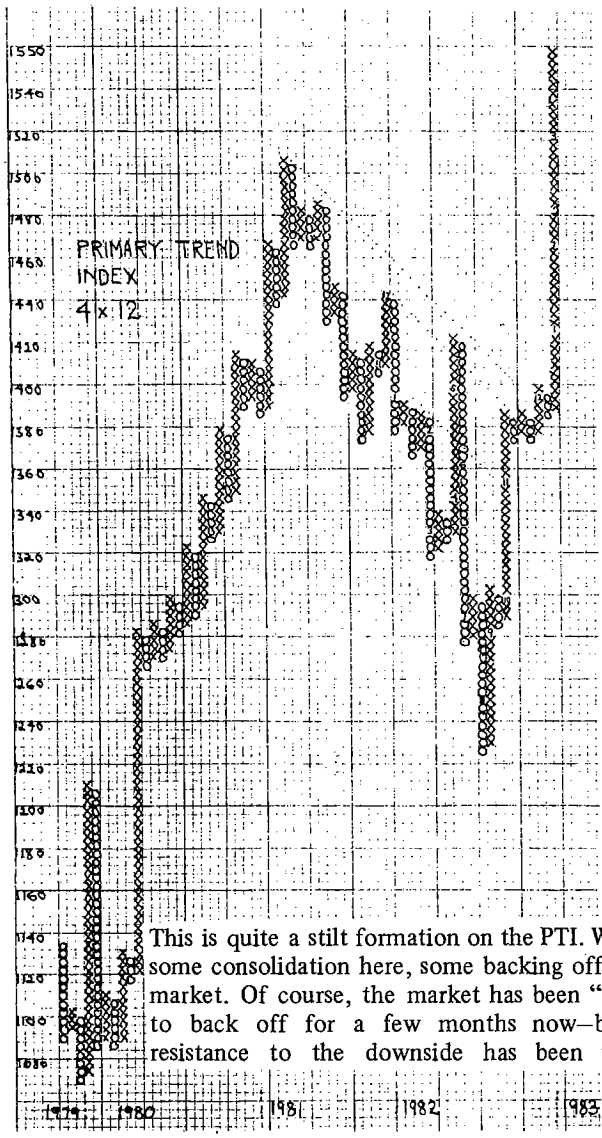


Now for the current technical picture. As a rule, we don't see the major Averages push to new record highs (as they *have done* recently)–only to be followed by a general market collapse. It just doesn't happen that way. So despite the sentiment indicators ("too much bullishness," heavy insider selling, frenzied speculation in the high-tech stocks), we should see a warning in the price structure itself prior to a reaction.

Dissenters can claim that there was no divergence, no out-of-gear movement, no non-confirmations at the August, 1982 lows. So by the same token why should there be any clearer warning here while the market is at record highs? And the answer I give is that we now have a very sophisticated market, a very "watched" market, a market dominated by professional fund managers and pension-plan strategists. It's a very different market than any I've seen in the past, and I'll admit it–I'm prepared for anything.

I've lived with the PTI for the past dozen years, and I guess I've developed a feel for it. So let's look at the point & figure chart of the PTI. The PTI, perhaps more than any other indicator, shows us the tremendous, relentless power of the 1982-83 market advance.

Now compare the 1982-83 rise with the tremendous PTI rise of 1980-81. The main difference (so far) is that following the initial spurt, the PTI corrected itself as it rose from the 1280 area to the final high at 1510. But the (current) 1982-83 advance has been relatively uncorrected (with the exception of the action around December, 1982).



This is quite a stilt formation on the PTI. We need some consolidation here, some backing off by the market. Of course, the market has been "trying" to back off for a few months now–but the resistance to the downside has been terrific.

One point about the PTI that should be noted: in the past, when the market was in the process of turning down, the PTI formed a recognizable top (as, for instance, the 1981 top). So far, no top has formed in the PTI. In fact, as of this writing, I cannot even get a three-box reversal in the PTI (a three-box reversal would entail a minor decline of 12 points or more).

So my conclusion is that the market "appears" over-extended, at least by recent standards. But if we're on the edge of the "big correction" the PTI has provided no warning yet. I think there is simply too much skepticism about this market. There still seems to be too many people waiting for "collapse city."

INVESTMENT POSITION: My feeling (with the bull still happily sitting in this box and the PTI near its high) is that we sit with what we have. Don't make any changes here. The mix is T-bills, defense stocks, some utilities and no-load funds. The primary trend of the market is up. The situation today is unfavorable for gold so any gold position should be minimal. And that's it.

In response to many questions about the "defense portfolio," I am not attempting timing on this one. Buy them when you feel ready. This is a 2 to 4 year waiting proposition, but the stocks are acting well.

QUESTIONS & ANSWERS: *Question:* Russell, for a number of years you have been saying that the US (because of its huge and still-growing debts) must "inflate or die." Now you're saying that gold has topped out and that stabilization may be the picture. What gives?

Answer: I believe that we could have a *year or so* of stability. I base this partly on the deflationary situation in oil. It's entirely possible that oil could sink down to the $25 a barrel level or even lower. Since oil is one of the key gauges of the world economy, sliding oil prices would be deflationary.

A second deflationary force is the literal default on loans on the part of such nations as Mexico, Brazil, Poland, Argentina, Costa Rica. I don't care what kind of re-scheduling and re-financing these nations bring off, the fact is that the massive loans are not being repaid on time–and it is increasingly obvious that they will never be repaid at all. My guess is that the loans will be kept on the books of the banks as "live" loans, and the sham will go on. But any way you look at it, these loans represent billions of dollars down the drain, and those losses are basically deflationary.

Against this,we have the spector of the Fed flooding the market with liquidity–as it seeks to keep the US (and the world) banking system from collapsing. The booming US money supply obviously represents an inflationary force, and when this force is pitted against the previously described deflationary forces we could have a period of what I term "false stability." It's like two powerful wrestlers pitting their full strength against each other. They may stand there almost motionless as each strains against the other–but the picture is deceptive. One of those motionless bodies is going to give way–sooner or later.

That's how I see the current US and the world picture. Ultimately one force will win the battle. I believe that force will be deflation.

Question: If you think this is a false stability even though it could last for a few years, what investment stance should one take?

Answer: I have opted for a fairly conservative stance–and one that is diversified. I've gone over the diversification package many times, but in brief it should include common stocks (since we are in a bull market), a home (if possible), a sizeable position in liquid funds (the best place would be Treasury bills) and yes, a small (rather than a large) position in gold.

Although everybody seems to be frantic to get on the trading wagon these days, I feel (gut feeling) that this is an old-fashioned "buy and hold" type bull market. The best hold, I believe, will prove to be the defense stocks, and my preferred list of defense-oriented issues appears in each mailing.

Question: We keep hearing about illiquidity in the economy. What's really happening?

Answer: We are witnessing a paradox. The major US banks (the top 10) are up to their necks in bad loans, international loans that will ostensibly never be paid off. If all those loans were to be thrown on the open market for whatever the market would bring them, then the banks would probably be lucky to get $.10 on the dollar. And if that happened, most of these banks could be under water. But . . . . the banks will not dump their bum loans, and it's a case of "how can you go broke if nobody ever throws you into bankruptcy?"

On the other side of the coin, the banks are now swimming in money. The Fed has flooded the banks. Assuming the international loans are never put on the books as a dead loss, the banks are liquid. It's as if you owed a million dollars to your father-in-law and you know he won't press you for it, and you have a hundred thousand in cash. You're doing fine and you're free and easy–as long as "dad" doesn't tip the ship.

Question: Russell, you kept talking about buying no-load funds instead of individual stocks. Then you recommend a package of defense stocks. Why?

Answer: There are very few sure things in this life, and there are almost no sure things when it comes to investing. But I do feel reasonably sure that Russia is moving on a course that she believes will take her to world domination. The foundation for that plan is world military superiority. I know a lot of people don't take Russia's immense military build-up seriously–but I do. I think it's so serious that it's just a matter of time before we see the first "shock of recognition" hit. Then it will be a case of catch up (for the US) or lose our economic and military position. For Russia's military build-up is part of her over-all plan to be the world's premier economic power. The Russians are out to prove that communism is the wave of the future, and they mean to prove it via economic superiority buttressed by military supremacy.

Thus, I feel it is just a matter of time before the US must engage on an all-out catch-up, military build-up. The spending will have to be huge–titanic. This then, is the nearest thing I can envision as a "sure thing" for investments. That is, I see well-situated defense stocks as a very special case at this time. From that came my strong recommendation to buy my ten defense-oriented stocks. And already you can see that some of them are doing well.

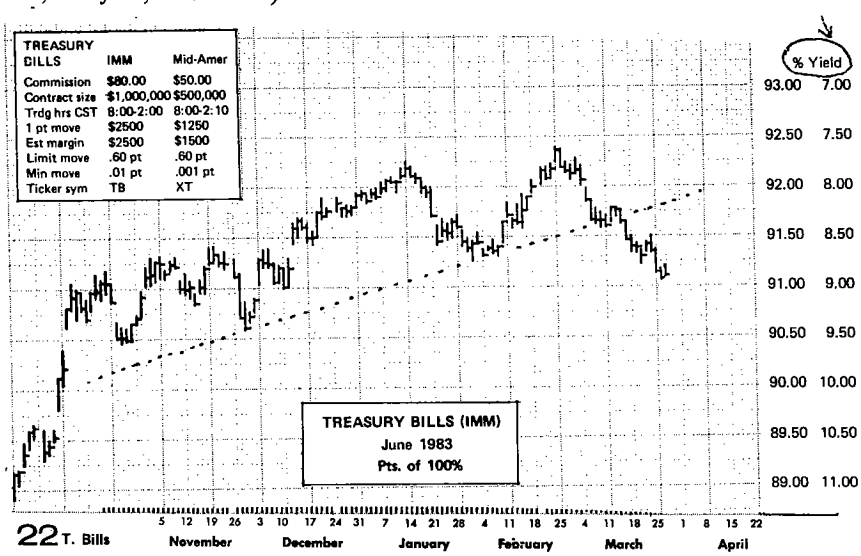
Question: Russell, a few months ago you presented a study on accumulation of assets as a sure road to wealth. How would you apply that to the current market?

Answer: I can apply my accumulation technique to any market at any given time (with the single exception of a period during a primary bear market). I believe in a "safety nucleus" of liquidity such as T-bills. Then I believe the investor (accumulator) should take the income from those T-bills and invest it in growth-oriented no-load funds. This approach provides one with a basic solid nucleus, and around that nucleus one builds (via the funds) an ever growing portfolio that will tend (at worst) to keep up with inflation and the growth of the nation. Even during times of no-growth or relative stability the funds through the power of compound investing will tend to grow.

Over the years I would bet that this approach will far surpass 90% of the trading approaches that are now so much in vogue. As an added thought, the choice of funds can vary–particularly where great values appear to exist. For instance, when gold is out of favor a gold fund may be purchased. When bonds are out of favor, a bond fund could be purchased. But in general, I would stick to growth funds with an outstanding record.

You paid your money to Dow Theory Letters for (among other things) investment advice. The foregoing may just be the best advice I have ever offered. And it's advice that I personally follow.

MONEY: Nothing's been proven yet, but the climate is subtly changing. This is a chart of the June T-bill contract, and it's clear that the bills are beginning to break down–technically speaking. As they break, the yield on the bills rises. At present the 91-day T-bills have pushed into the 8.9% yield zone and the one-year maturities have risen to 9.3%. With inflation around 3-5% or less (nobody knows for sure), one thing is clear–the real rate of return on the super-safe Treasury paper is high and very attractive. (Chart courtesy of Dunn & Hargitt, 22 N. 2nd St., Lafayett, Ind. 47902)



CONTRARY TO CONTRARY OPINION? Humphrey Neill developed the whole concept of contrary opinion back in the 1930s and '40s. I used to correspond with Humphrey, and I remember that one time he wrote me and said (and I include this from memory), "Dick, we'll have to watch out for two things. The first is that it's not always clear when an opinion is widespread. In other words, there are times when you're not sure what the universal opinion is, and in such cases you can't take a contrary stance.

"Second, we'll have to watch for the time when the whole concept of contrary opinion is too well accepted. It is possible that some time in the future the whole concept of contrary opinion may become a Wall Street fad. And then we'll have to drop it for a while."

And I'm wondering whether contrary opinion isn't too popular now. There is a service being published today that monitors the number of bullish advisors in each class of commodities. There is a leading service that monitors the number of stock market advisory letters that are bullish. Statistics from both of these services are distributed widely. Almost every market letter now talks about "too many bullish services" or "too many bearish services."

On top of that just about every market soothsayer spouts contrary opinion and the wisdom of taking a contrary stance. So that honestly, I'm beginning to be very suspicious of almost all the "sentiment of the market" studies.

My PTI takes a different approach. It is computed on actual market statistics. In other words, it is calculated on statistics which deal with what the stock market is doing, as opposed to sentiment figures which show what investors are thinking.

Of the two categories (sentiment vs. action) I trust the action far more. Sentiment figures are very subjective, and I feel that the study of market sentiment (including contrary opinion) is just too popular today. But the action of the market is objective. If the Dow rose 7.08 today that's a fact, not an opinion.

On October 6, 1982, just weeks after the August market bottom, *Time* magazine came out with its bull-on-the-cover story. Many services (acting on classical contrary opinion) pooh-poohed the bull market and stated at the time that the Time cover was the kiss of death. That so many people had the same opinion about the Time cover bothered me. That Time cover may have signalled the temporary death of contrary opinion.

NOTES & QUOTES: One of the drawbacks in living in a semi-desert area such as San Diego is that we tend to get ALL our rain in a period of a few weeks to a month or so. This year we got all the rain we needed–in a space of three weeks. Now, I'm guessing it's about over. By July or August I'll be looking skyward, wishing that we could get just a little sprinkle. I'll actually have forgotten what a wet sky looks like by then.

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San Diego is probably the most "out-doors" town in the nation. Ride along any street in the morning here, and it looks like the whole town is out jogging. It must be infectious. Last week I joined (for the first time) a "Fitness Center." I started working out the same day, and I was amazed at how good most of the people at the center looked. You think women are the weaker sex? You ought to study our aerobics class (which almost all men have a hard time with).

At any rate, the point of all this is that I think the idea of people falling apart as they get older is outmoded. I've seen men and women of all ages working up a fierce sweat while doing aerobics, working on the Nautilus machines or just jogging. It's a new way of life–and I'm all for it.

* *

One of the axioms of life that I find applicable to almost any situation is Russell's axiom. It's simple and it goes like this: "Nothing's easy." I don't care whether we're talking about your finances, your son's college tuition or your own life. Nothing's easy. So we need all the help we can get. Most people only realize that during emergencies, but it's true–it really is.

And talking about help, I have just finished a book entitled "The Road Less Traveled." It's written by a brilliant psychiatrist, Dr. M. Scott Peck (Touchstone, $6.95). The book is out in paperback, and I recommend it to all my subscribers. In the book Dr. Peck talks about love, being "in love," life, sex, and

religion. Frankly, I can't think of when I have received so much good (and often original information) in a single volume). I recommend this book. It's a gem.

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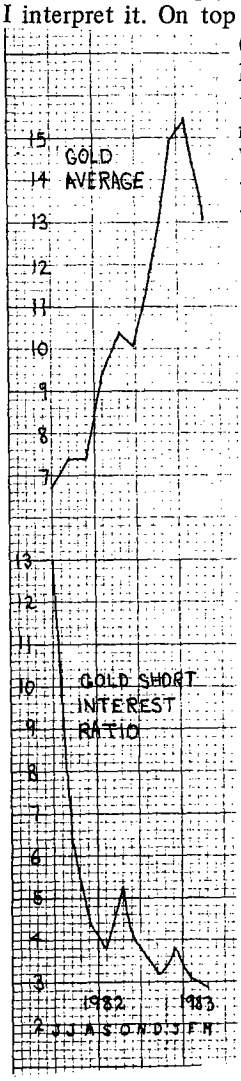
The Arabs were, up to recently, big buyers of US Treasury debt. That, of course, was comforting to the US Treasury and helped to keep interest rates down. But times have changed. For instance, the Saudi import bill (construction, goods and services) now amounts to about $90 billion. But oil revenue together with foreign investments, will combine this year to produce only about $50 billion. Thus, the Saudis face a $40 billion deficit. One thing is for sure–they won't be buying any US T-bills. In fact, they may be sellers of bills.

GOLD: A lot of people are actually angry at me because I turned cold on gold. I tell them I didn't turn off on the metal, I simply followed my technical work and refused to argue with that work. My technical work said that gold was (at best) uninteresting from here on. At worst, gold was in another important downtrend.

Why? How could it happen? One way is that gold (like the stock market) foresees NO DISASTERS in the period ahead. Not only does gold not see disasters, it evidently sees no important inflation in the period ahead. So two of the main reasons for holding gold have evaporated. At least, that's the way I interpret it. On top of that, my gold to common stock ratio (relative strength) has fallen to its lowest level in recent years. That study tells me that the place to be is the stock market–not gold. I don't argue with these studies. When I do, I end up in more trouble and with more sleepless nights than I care to handle.



GOLD SHORT INTEREST RATIO: This is a study (chart right) that you probably won't see any place else. But it is a study that, I believe, is discouraging for gold.

I have taken the three major gold stocks listed on the NYSE, Campbell Red Lake, ASA and Homestake. For each month I have added their combined short interest. This combined short interest was divided by the combined average daily volume in each issue. This gives me the short interest ratio for the three major gold issues.

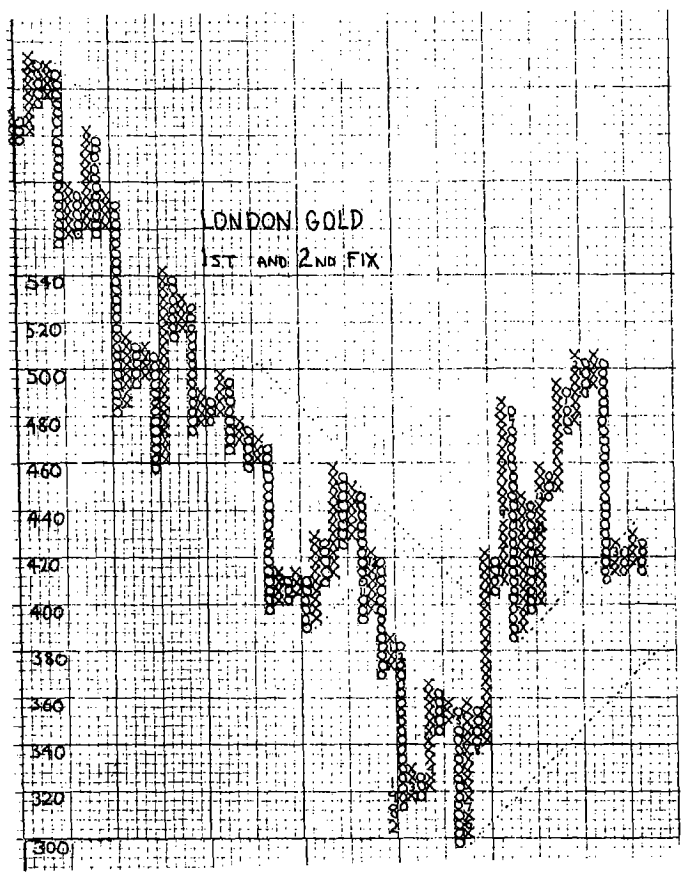
Back in June, 1982, my Gold Stock Average stood at 6.85. At that time the gold short interest ratio was at an incredibly high 13.1. This figure meant that on any given day there were 13 shares of gold stock short for every share of gold stock that was traded. The market, in other words, was choking on gold bearishness. Everybody who "knew" anything about gold shares was short.

The Gold Average started moving up–and running of the shorts began. By November the gold Average had risen to over 10, volume in gold shares had picked up, and the shorts were starting to run. By February, 1983, the Gold Average had more than doubled from its June low and the shorts were being crucified. The Gold short interest ratio in February was down to 2.13. Average daily volume in gold shares was triple that of June, 1982, and the short interest was down by a third.

The latest figures show the following. The total short interest in the three gold shares dropped from February's 641 thousand to March's 566 thousand. But average volume in the three gold stocks held almost even at around 300 thousand. And the gold short interest ratio dropped under 2.0 for the first time–to March's 1.91.

Under this study, the situation for gold is now unfavorable. Despite what you may think or hear, there is far too much enthusiasm regarding gold–as gauged by the low level of gold shorts and the high level of gold share trading. It will pay us to wait for the next build-up in gold pessimism. The build-up will be seen in the action of the gold short interest ratio.

This point & figure chart below shows the initial downward "spike," a formation that I take seriously. The chart shows that gold must avoid a London spot fix of 408 or less. Such a fix would turn the gold picture particularly bearish, and a spot price of 408 would (I believe) send gold well under 400. So for the optimists, gold's job now is to avoid a spot 408 price.



LATE NOTES: You remember the long string of plus weeks for the PTI that I was talking about? That was a streak (December 3 to March 4) when the PTI was lower on only one single week. I said that that string was too long, and that the market needed to consolidate.

Well, we're consolidating. The PTI was minus for the week ending March 11, and it has been minus for three out of the past four weeks. But here's the interesting part. The PTI was 1541 on the week ending March 11 with the Dow at 1117.74. Now with the PTI down three out of the four weeks since, the readings (March 31) are PTI 1545 and the Dow 1130.06. In other words, with the PTI correcting it is nevertheless higher now than it was on the week ending March 4. And the Dow 13 points higher!

My conclusion is that this is a very strong market. It is resisting correction with all its might. The PTI just does not want to fall apart.

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HERE ARE a few late notes and thoughts. First, this 10-point point & figure chart of the Dow shows a powerful formation with all the action taking place *above* the rising bullish trendline. According to the chart, the first possible sell signal on the Dow would come on an hourly reading of 1100 (chart courtesy of Chartcraft, Larchmont, NY).

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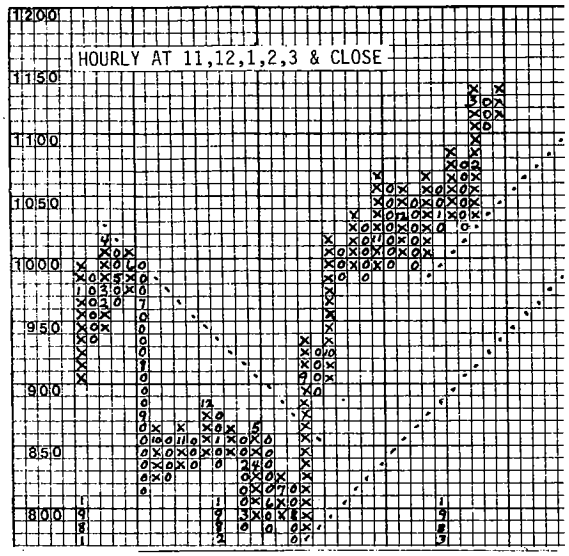
	Dow	PTI	Gold
Current	1130	1545	417
5-wk MA	1127		422
13-wk MA	1099		442
50-wk MA	996		426
3-wk MA		1544	
8-wk MA		1524	
21-wk MA		1468	

		2/25/83 Price	Current Price	Defense stock average based on 1 share of each this week is
NYSE	Harris Corp. (HRS)	49 1/2	45 3/8	
NYSE	LFE (LFE)	11 7/8	12 5/8	
NYSE	Planning Research (PLN)	14 3/8	15 1/4	
NYSE	Scientific Atlanta (SFA)	19	16 3/4	
AMEX	Tracor (TRR)	28 3/4	34 3/8	
AMEX	Bolt Beranek (BBN)	37	39 7/8	
AMEX	BDM (BDM)	43 1/2	57	
AMEX	Dynalectron (DYN)	12 3/4	12 7/8	259
AMEX	Moog B (MOGB)	15 1/2	17 7/8	
AMEX	Systems Planning (SPZ)	7	7 1/2	
	Original purchase date Feb. 25 '83		239	

DOW-JONES INDUSTRIAL AVERAGE (10 x 30)



On the defense list, I received a call from Moog and they were disturbed at the price disparity between Moog A and B stocks. One is merely a voting issue, the other is non-voting. For purposes of the portfolio, therefore, buy the cheaper of the A or B stock.

* *

The new Permanent Portfolio Fund is interesting and well worth looking into. You can get information by calling 1-800-531-5142. The fund is run by a group of hard-money people including Jim Benham (of Capital Preservation Fund), Harry Browne and Doug Casey. The portfolio will be roughly 20% gold, 5% silver, 10% Swiss francs, 15% real estate, 15% common stocks and 35% of Treasury bills, bonds and other dollar assets. This fund makes a lot of sense as a core asset or a "safety package," and I think it may have a use for a number of my subscribers. Anyway, I think the new fund represents an intelligent concept.

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An incomplete list of No-Load Funds that I like:

Columbia Growth Fund – 1-800/547-1037

Explorer Fund – 1-800/523-7910

Fidelity Magellan – 1-800/225-6190

Sequoia Fund – 1-212/245-4500

Value Line Leveraged Growth Shares – 1-800/223-0818

Guardian Mutual Fund – 1-212/850-8300

NEXT MAILING: APRIL 20